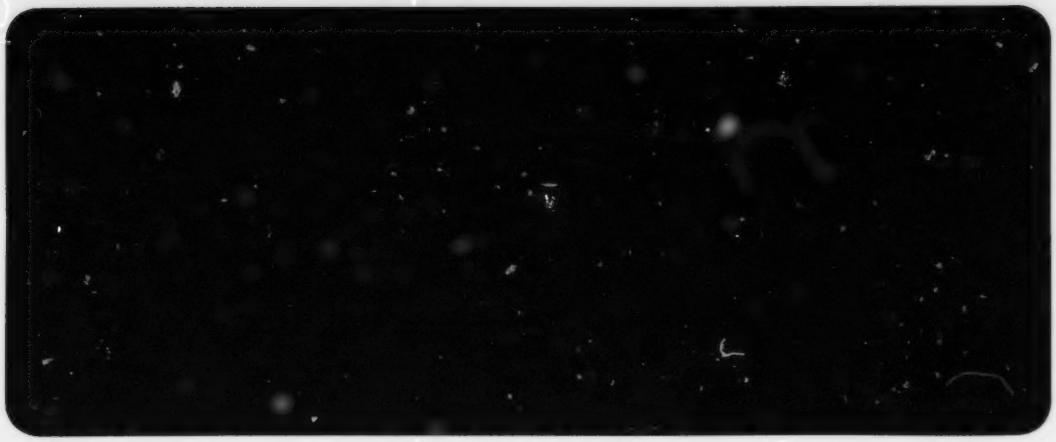
Health and Welfare Canada
Santé et Bien-être social Canada



INCOME SECURITY PROGRAMS

PROGRAMMES DE LA SÉCURITÉ DU REVENU

RESEARCH NOTE

NOTE DE RECHERCHE

Canada

THE FINANCIAL SITUATION OF CANADIAN PENSIONERS

(PENSIONER SURVEY, 1987)

BY

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DATA DEVELOPMENT
INCOME SECURITY PROGRAMS
HEALTH AND WELFARE CANADA

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THE FINANCIAL SITUATION OF CANADIAN PENSIONERS

CHANGES IN THE SENIOR POPULATION

As you are already aware, Canada's older population has considerably increased in the past 20 years. In 1970, Canadians aged 65 and over represented 8% of the population; in 1988 this figure had risen to 11.2%. As for the population under the age of 25, this group accounts for no more than 37% of the total population, whereas the figure in 1970 was 49%. Between 1970 and 1988, the population aged 25 to 64 rose from 44% to 52% of the whole. Table 1 shows us these realities of more pensioners and fewer young people, what the demographers call a reverse age pyramid.

CHANGES IN OLD AGE PENSION EXPENDITURES

This increase in the number of seniors has a considerable influence on Old Age Security program expenditures. Since January 1970, Old Age Security benefits have increased from $80 a month to $326 in 1989, a more than 300% increase, mainly due to inflation. As for the Guaranteed Income Supplement, it rose from $32 to $387 a month, an increase in the order of 1,100%, the result of inflation and special increases passed by the federal government in favour of low-income pensioners. Table 2 shows the changes over time in inflation and salaries compared to that of Old Age Security benefits.

During this same period, Old Age Security expenditures rose from 1.6 to 9.7 billions of dollars, which represents a 500% increase, while Guaranteed Income Supplement expenditures rose from 300 million to 3.6 billion, a 1,100% increase. As a percentage of the gross national product in current dollars, this represents a 2.2% to 2.3% increase from 1970 to 1980. (Table 2)

CHANGES IN PENSIONERS' INCOME

In light of this major increase in Income Security expenditures, we wanted to determine what was the portion of pensioners' total income that federal pensions represented, what other income sources pensioners had, and whether their income was sufficient. We carried out two surveys for this purpose, one in 1981 and the other in 1987.

When the results of the 1987 Health and Welfare pensioner survey are examined, an appreciable difference is noted between average individual income as calculated from tax returns ($18,435 for 1986) and that obtained in our survey ($12,777 for 1986). This difference arises from the fact that taxation statistics cover only 69% of pensioners, since the rest do not have enough income to file a tax return.

It is only when the census data and the NHW survey data are examined that the significance of the latter study for obtaining more detailed information on pensioners' sources of income, their true standard of living, and other subjects normally untouched by other surveys is understood. Table 3 shows the average individual income of pensioners as reported in the various surveys.

In 1980, as Table 4 shows, the average income of pensioners aged 65 and over was $8,445. Of that amount, 37% came from Old Age Security, 25% from investment income (interest, dividends, capital gains), 11% from private pension plans and registered retirement savings plans, 11% from the Canada or Quebec Pension Plan, 9% from employment and 8% from other sources such as Unemployment Insurance, Family Allowance, Workers' Compensation and provincial income supplements.

In 1986, as another study from Health and Welfare Canada shows, the Old Age Security pension still represents the most important proportion of pensioners' income. It only dropped 1 percentage point. At the same time, the contribution of investment income dropped to 21%, a decrease of 4 percentage points explained by the higher level of interest rates in 1980 than 1986. Indeed, the Bank of Canada rate rose to an average of 12.9% in 1980 while in 1986 it was only at 9.2%. The difference would have been even greater if the study had asked for the investment income in 1981 when interest rates were at about 18%. As for the contribution of private pensions and Registered Retirement Savings Plans to pensioners' income, it grew to 17%, an increase of 6 percentage points compared to 1980.

The maturation of the Canada and Quebec Pension Plans is reflected by an increase in their percentage of total revenues, from 11% in 1980 to close to 13% in 1986. As for the percentage representing employment income, it has decreased to 7.6%. In the long term, this increase in income from public and private pension plans will reduce Guaranteed Income Supplement expenditures, since this program is linked to family income.

Table 5 shows the differences between Canada and Quebec in terms of individual income. For Quebec pensioners, Old Age Security represents 42% of their income and public pension plans represents 15%. The breakdown of other sources of income for Quebec pensioners is similar to that for Canadian pensioners, except for the share accounted for by the private pension plans and income from other sources, which are lower in Quebec that in Canada as a whole.

In Table 6, we can see that Canadian pensioners' income has risen 51% while the rate of inflation and net salaries have risen 49%. This means a net gain of 2% for pensioners, as the result of a broader coverage by public and private pension plans and increased recourse to Registered Retirement Savings Plans.

If we compare pensioners' income against that of the average individual income for those aged 20 to 64, which was $21,100 in 1986, it seems extremely low at $12,777. Must we then conclude that most pensioners are poor?

MINIMUM INCOME LEVELS

In the 1987 Health and Welfare Canada survey, we asked pensioners what they felt was the minimum income they required to meet their essential needs. Table 7 shows these minima by province and by marital status. It shows that single people gave different minima according to their marital status, sometimes markedly different, as for Manitoba and Yukon. Table 8 shows these same minimum income levels according to the size of region lived in and family size, compared to the low income levels calculated by Statistics Canada based on the Consumer Finance survey.

According to the Statistics Canada survey, as you know, the smaller the region of residence, the lower the income limit, in keeping with the principle that it costs less to live in smaller centres (food, accommodation, clothing). Yet according to the Health and Welfare survey, pensioners do not seem to share this opinion. For married persons, higher incomes are seen as necessary in cities of 100,000 to 500,000 population. On the whole, however, as seen in Table 9, the thresholds are fairly similar for single persons, but different for married ones.

Table 8 also shows us the maximum level of federal benefits for pensioners (except provincial supplements) compared to the income limits for the two surveys mentioned. It will be seen that pensioners receiving only the federal Old Age Security pension and the Guaranteed Income Supplement fall below the minimum income level.

However, it should be remembered that single and married pensioners still have to catch up as seen in the size of the region of residence analysis.

It should also be noted that the maximum amount of federal benefits is relatively close to low income levels as seen in Table [illegible].

PROPORTION OF PENSIONERS BELOW THE MINIMUM INCOME LEVEL

When calculating the proportion of pensioners under the Health and Welfare survey minimum income level (Table 9) and the Statistics Canada low income level (Table 10) it will be seen that there is a wide disparity between provinces and pensioners according to marital status. In general, divorced persons are most affected, followed by widowers, widows and single people. It will also be seen that very few married people are under the Statistics Canada low income level, since the federal benefit is generally higher than this figure.

Table 11 is a comparison between the proportion of pensioners in Canada below the minimum income level in these two surveys, by marital status. It will be seen that, regardless of which survey is involved, the proportion of pensioners below the minimum or low income is sizeable.

It can be concluded, in fact, that if 31% of pensioners according to the NHW survey (40% according to Statistics Canada) are under the minimum or low income level, their situation is still relatively satisfactory, since their income is at least the amount of the federal Old Age Security pension.

In the long term, however, this gap will be filled by the increasing contribution of the Canada Pension Plan, the Quebec Pension Plan, private pension plans and income from personal savings. It must be kept in mind, also, that a number of provinces provide an income supplement, housing subsidies or health care benefits, which often serve to make up the difference.

PROPORTION OF PENSIONERS RECEIVING ONLY FEDERAL PENSIONS

We know that the Canadian pension system is a three-tiered one. The first level is made up of the Old Age Security pension and Guaranteed Income Supplement, the second by the Canada and Quebec Pension Plans, the third by the private pension plans and individuals' personal savings.

We can therefore assume that, in future, Canadians will live above the minimum income level. This is not the case at the present time, because many pensioners have not had the opportunity to save money for their old age and also because the public pension plans began only in 1966.

In fact, if we examine developments in the first tier (i.e., Old Age Security pension and Guaranteed Income Supplement), it will be seen that the Supplement has progressed substantially from 1970 to 1987.

Since the inception of the Guaranteed Income Supplement program in January 1967, the federal government has increased the Supplement six times (by $20 in April 1972, $10 in January 1972, $20 in January 1979, $35 in July 1980, $25 in July 1984 and $25 in December 1984). These increases do not include quarterly increases calculated according to the Consumer Price Index.

All of these increases have added up to a 1,100% increase in the Supplement between 1970 and 1989, while the increase in inflation was only 258%. These increases have, therefore, contributed to a considerable rise in the standard of living of pensioners who had not had time to derive the full advantage of public pension plans or to put away money for their old age.

However, 15% of pensioners in 1986 were still living on only the federal Old Age Security pension, provincial income supplements and welfare payments. This is explainable by the introduction of the public pension plans only in 1966 and the slowness with which the private plans covered the population. Table 12 shows the distribution of these pensioners by province and clearly indicates the effect of provincial supplements, in the case of Ontario and Alberta, for example.

CONCLUSION

In conclusion, pensioners were generally better off in 1986 than in 1980, and the situation ought to continue to improve as the public pension plans mature, private plan coverage expands and RRSPs increase in popularity.

Examination of the figures will indicate clearly that those who managed to put money aside for their old age are definitely better off than those who could not.

Although some 30% of pensioners do live below minimum income levels, mainly single persons, it will be seen that most come very close to the low income level because of the amount they receive from the federal Old Age Security pension. This is, therefore, a good point in favour of the Canadian pension system.

Although the figures indicate that married pensioners generally are above the low income level, single persons still need to make gains, if we consider only the amount of the federal Old Age Security pension. A more detailed study, however, would no doubt indicate that, with provincial supplements, housing subsidies and health care benefits, income level would probably be in most cases, the equivalent of the low income threshold.

TABLE 1

POPULATION OF CANADA IN 1970 AND 1988.

Years	1970 '000	1970 % of total	1980 '000	1980 % of total	% Change from 1970 to 1988
0 - 24	10,341	48.5	9,426	36.5	-8.2
25 - 64	9,261	43.5	13,517	52.3	48.8
65 +	1,695	8.0	2,884	11.2	74.5
Total	21,297	100.0	25,827	100.0	23.0

Source: Statistics Canada, POPULATION 1921-1971, Cat. 91-512, Demographic Projections, (from 1986 Census), Demography Division.

TABLE 2

MAXIMUM BENEFITS, CONSUMER PRICE INDEX,
AVERAGE WEEKLY WAGES AND FEDERAL EXPENDITURES
1970 AND 1989.

	1970	April 1989	% Change
Maximum benefits			
Old Age Security	$ 80.00	$ 325.87	307 %
Guaranteed Income Supplement	$ 32.00	$ 387.26	1,110 %
Consumer Price Index	41.0	146.8	258 %
Average weekly wages	$ 126.78	$ 510.00*	300 %
Federal Expenditures			
Old Age Security ('000,000)	$ 1,600	$ 9,700	500 %
Guaranteed Income Supplement ('000,000)	$ 300	$ 3,600	1,100 %
% of Federal expenditures in relation with gross national product	2.2	2.3	

* Estimated

TABLE 3

AVERAGE INDIVIDUAL INCOME OF PEOPLE AGED
65 YEARS AND OVER, ACCORDING TO VARIOUS SOURCES

CANADA - 1986

	Average individual income ($)	Number
Income Tax return	18,435	1,840,890
Census 1986	14,500*	2,697,575
1987 OAS survey of Health and Welfare Canada	12,777	2,707,874*

* estimated

Source: Taxation statistics, 1988 edition, Revenue Canada Taxation, pp.252-254, 1986 Canada Census, Statistics Canada, Old Age Security survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 4

AVERAGE INDIVIDUAL INCOME OF OAS PENSIONERS
BY SOURCE OF INCOME FROM THE 1987 OAS SURVEY
OF HEALTH AND WELFARE CANADA

Source of income	Average income in 1980	% of individual income	Average income in 1986	% of individual income	% change in 1986/80
	$ / year	%	$ / year	%	%
Old Age Security	3,112	36.9	4,604	36.0	47.9
Investments	2,078	24.6	2,618	20.5	26.0
Private Pension Plans	949	11.2	2,008	15.7	111.6
CPP/QPP	931	11.0	1,704	13.3	83.0
Employment	719	8.5	966	7.6	34.4
Other sources	656	7.8	877	6.9	33.7
Total individual income	8,445	100.0	12,777	100.0	51.3

Note: Total amounts for each source of income have been redistributed to all OAS beneficiaries.

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 5

AVERAGE INDIVIDUAL INCOME OF OAS PENSIONERS BY SOURCE OF INCOME FROM THE 1987 OAS SURVEY OF HEALTH AND WELFARE CANADA FOR CANADA AND QUEBEC

Source of income	CANADA		QUEBEC	
	Average income in 1986	% of individual income	Average income in 1986	% of individual income
	$ / year	%	$ / year	%
Old Age Security	4,604	36.0	4,905	41.5
Investments	2,618	20.5	2,341	19.8
Private Pension Plans	2,008	15.7	1,539	13.0
CPP/QPP	1,704	13.3	1,735	14.7
Employment	966	7.6	841	7.1
Other sources	877	6.9	454	3.9
Total individual income	12,777	100.0	11,815	100.0

Note: Total amounts for each source of income have been redistributed to all OAS beneficiaries.

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 6

RATES OF GROWTH OF INFLATION, WAGES AND INCOMES FROM 1980 TO 1986

	% change
Inflation	48.9
Wages	48.2
Statistics Canada low income cut-offs	48.9
Average individual income from 1987 OAS survey of Health and Welfare Canada	51.3

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987 and The Red Book, pp. E.3-4, F.2-3, H.1-2.

TABLE 7

MINIMUM INCOME BY PROVINCE AND MARITAL STATUS AS INDICATED BY RESPONDENTS OF 1987 OAS SURVEY OF HEALTH AND WELFARE CANADA
1986 INCOME

	Single	Married	Widowed	Divorced
	$	$	$	$
Newfoundland	8,567	15,606	10,746	9,720
Prince Edward Island	11,877	16,311	10,621	12,000
Nova Scotia	12,419	16,350	11,321	8,191
New Brunswick	11,047	16,960	10,205	10,857
Quebec	11,449	16,368	10,000	12,229
Ontario	9,662	16,764	11,766	9,104
Manitoba	7,367	17,583	11,003	8,533
Saskatchewan	10,384	14,632	11,535	11,456
Alberta	10,941	17,183	11,603	10,835
British Columbia	10,018	16,899	10,628	11,797
Yukon	8,399	19,178	11,201	12,383
North West Territories	11,184	12,191	8,816	9,600
Canada	10,693	16,657	10,990	10,544

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 8

LOW INCOME CUT-OFFS ACCORDING TO SIZE OF REGION OF RESIDENCE AND NUMBER OF PEOPLE

Size of region of residence	1 person		2 persons	
	Survey	Stat. Can.	Survey	Stat. Can.
500,000 persons and over	9,385	11,118	14,079	14,669
100,000 - 499,999 persons	9,690	10,559	15,264	13,923
30,000 - 99,999 persons	10,454	9,906	14,792	12,990
5,000 - 29,999 persons	8,822	9,158	13,600	12,052
Rural areas	8,961	8,222	13,607	10,746
Total	9,359	9,572	13,974	12,293
Maximum amount of Old Age Security benefit and Guaranteed Income Supplement in 1986	7,941		12,875	

* In the survey, we asked recipients what was the minimum amount of money they needed, in total, to cover their basic needs. We used this amount as our low income cut-off.

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987 and Statistics Canada's 1986 Survey of Consumer Finances data.

TABLE 9

PROPORTION OF OAS PENSIONERS UNDER THE MINIMUM INCOME NEEDED INDICATED IN THE 1987 OAS SURVEY OF HEALTH AND WELFARE CANADA - 1986 INCOME

	Single	Married	Widowed	Divorced	Total
	%	%	%	%	%
Newfoundland	5.7	40.9	47.0	69.8	40.5
Prince Edward Island	58.6	24.5	51.6	100.0	36.3
Nova Scotia	12.4	22.8	41.9	58.6	29.0
New Brunswick	21.1	23.2	40.2	62.2	29.0
Quebec	42.6	28.3	38.5	55.4	34.6
Ontario	47.6	24.9	34.0	37.8	28.4
Manitoba	34.3	45.1	36.8	71.9	42.7
Saskatchewan	17.1	20.8	19.0	36.0	20.1
Alberta	22.4	33.2	35.5	42.3	33.5
British Columbia	41.3	18.7	36.7	40.6	25.8
Yukon	30.6	36.4	74.7	30.0	40.1
North West Territories	49.0	41.9	22.8	25.0	34.7
Canada	35.2	26.5	35.7	43.5	30.6

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 10

PROPORTION OF OAS PENSIONERS UNDER LOW-INCOME CUT-OFFS
FROM STATISTICS CANADA'S SURVEY OF CONSUMER FINANCES
1986 INCOME

	Single	Married	Widowed	Divorced	Total
	%	%	%	%	%
Newfoundland	8.3	---	49.8	100.0	44.3
Prince Edward Island	44.4	11.2	50.1	0.0	48.3
Nova Scotia	9.5	50.0	27.6	23.9	26.0
New Brunswick	34.6	0.0	39.0	24.4	36.0
Quebec	46.0	7.4	60.7	64.9	55.0
Ontario	42.0	35.3	35.0	36.8	34.6
Manitoba	73.8	---	39.2	89.3	48.1
Saskatchewan	14.4	0.0	19.4	52.8	19.4
Alberta	20.4	2.1	39.5	38.3	34.9
British Columbia	57.2	31.8	46.8	34.0	45.4
Yukon	58.8	12.1	35.1	8.1	26.8
North West Territories	29.1	29.0	26.0	11.3	28.6
Canada	42.3	17.9	42.9	41.9	41.6

Source: Survey of Consumer Finances, Statistics Canada, 1986 and OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

TABLE 11

PROPORTION OF OAS PENSIONERS BELOW LOW-INCOME CUT-OFFS AND MINIMUM INCOME NEEDED 1986 INCOME

	1987 Oas Survey	Statistics Canada
	%	%
Single	35.2	42.3
Married	26.5	17.9
Widowed	35.7	42.9
Divorced	43.5	41.9
Total	30.6	41.6

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987 and Statistics Canada's 1986 Survey of Consumer Finances data.

TABLE 12

PROPORTION OF OAS PENSIONERS RECEIVING ONLY OLD AGE SECURITY, PROVINCIAL SUPPLEMENT AND WELFARE - 1986 INCOME

	Single	Married	Widowed	Divorced	Total
	%	%	%	%	%
Newfoundland	23.4	8.1	27.9	70.1	31.4
Prince Edward Island	39.5	1.8	25.9	0.0	19.1
Nova Scotia	43.6	0.3	20.5	19.3	19.2
New Brunswick	24.1	1.2	8.1	18.8	20.3
Quebec	14.6	3.0	22.2	18.8	20.3
Ontario	6.7	1.0	11.7	16.5	11.1
Manitoba	34.1	1.3	20.1	0.0	20.3
Saskatchewan	9.2	0.3	14.5	33.7	13.3
Alberta	0.0	4.3	14.8	16.2	12.0
British Columbia	27.3	1.1	14.0	5.5	11.4
Yukon	36.2	7.3	5.9	0.0	12.2
North West Territories	61.2	40.3	30.3	11.4	47.5
Canada	15.0	1.8	16.0	15.3	15.0

Source: OAS survey, Income Security Programs Branch, Health and Welfare Canada, October 1987.

APPENDIX A

OLD AGE SECURITY

Income security programs for the elderly are divided into two programs: Old Age Security, which includes Old Age Security benefits, Guaranteed Income Supplement and Spouse's Allowance, and the Canada Pension Plan.

As we all know, Old Age Security is a universal program. All Canadian citizens and landed immigrants who have been in Canada for ten years prior to approval of the application are eligible. The eligibility criteria has changed since 1977. Everyone who was under the age of 25 on July 1, 1977 must have resided in Canada for a period of 40 years after the age of 18 to obtain full benefits.

At the present time, in April 1989, there are 2.9 million recipients, who may receive up to $325.87 in benefits per month. Old Age Security expenditures for 1988-89 have been estimated at $11.1 billion.

GUARANTEED INCOME SUPPLEMENT

The Guaranteed Income Supplement is designed to provide financial assistance to needy Old Age Security recipients. Applicants must undergo an assessment of their family income.

The maximum monthly amount of the Supplement is reduced by one dollar for every two dollars of monthly income from sources of income other than those defined in the Income Tax Act. There are four benefits.

Those for single persons, or persons who are married to someone who is not eligible for the Old Age Security pension (maximum benefit $387.26) in April, 1989 and those for persons who are married to a contributor or recipient of Spouse's Allowance (maximum benefit $252.23).

Almost half of Old Age Security recipients (1.4 million persons) receive the Guaranteed Income Supplement. Annual expenditures are evaluated at $3.9 billion for 1988-89.

SPOUSE'S ALLOWANCE

The Spouse's Allowance is a program intended to provide financial assistance to the 60 to 64 year old spouses of Old Age Security recipients, and to widows and widowers aged 60 to 64.

Those applying for the Spouse's Allowance must undergo a family income assessment. The maximum monthly amount of the allowance is reduced by three dollars for every four dollars received from a source of income other than those defined in the Income Tax Act, until the amount equivalent to Old Age Security benefits is reduced to zero. In April, 1989 the maximum amount receivable by a regular Spouse's Allowance recipient is $578.10 per month, and $638.24 per month, for extended and survivor's benefits.

As of April, 1989, there were 134,000 Spouse's Allowance recipients. Annual program expenditures are estimated at $525 million for 1988-89.

In total, the Old Age Security program currently has 3 million recipients. It costs $15.5 billion in 1988-89, this amount amount coming from the federal government's general tax revenue.

Old Age Security benefits, the Guaranteed Income Supplement and the Spouse's Allowance are indexed quarterly to the cost of living, based on the Consumer Price Index of the previous quarter.

CANADA PENSION PLAN

Another program of importance to the income of the elderly is the Canada Pension Plan, a contributory social insurance plan based on employment income. It protects contributors and their families from loss of income because of retirement, disability or death. The Plan operates throughout Canada except for Quebec which has inaugurated its own plan, the Quebec Pension Plan.

The amount of retirement benefits is 25% of average pensionable earnings for the past three years of employment. Since 1987, retirement benefits may be paid out at age 60, but these are reduced by 1/2% per month for each month remaining until the contributor's 65th birthday. Benefits may also begin after the 65th birthday, in which case they are increased by 1/2% for every month after the 65th birthday. This adjustment ceases when the contributor reaches age 7.

Early retirement has become a popular measure. In 1987, its first year of operation, close to two-thirds of new Canada Pension Plan retirees were between the ages of 60 and 64. In 1988, more than half of new retirees were in that age group.

In 1989, maximum retirement benefits contributor may receive are $556.25 per month. At the present time, there are 1,645,000 individuals receiving retirement benefits.

The survivor's benefit is paid to the surviving spouse of a contributor. Survivors under the age of 65 may receive benefits made up of one portion at a flat rate and another corresponding to 37.5% of the actual pension of the contributor or the amount which he/she would have received at age 65. A survivor aged 65 or over receives benefits equivalent to 60% of the contributor's retirement benefit.

In 1989, the maximum for survivor's benefits is $311.61 for spouses under the age of 65 and $333.75 for those over that age.

The majority of recipients of survivor's benefits are women over the age of 60. In fact, a little over 90% of recipients are women and three-quarters are over the age of 60.

The Canada Pension Plan is financed by workers' contributions and investment interest on surplus funds. Canada Pension Plan expenditures for 1988-89 were in the order of $8.4 billion.